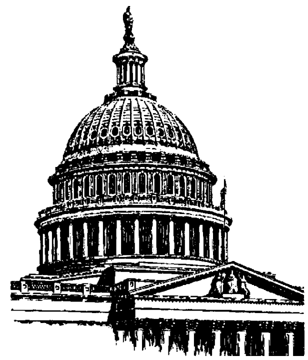
Lynn Rivers' *Capitol Corner*



106th Congress, August Edition

A newsletter by Congresswoman Lynn N. Rivers representing Michigan's 13th Congressional District

August 1999

Dear Friends,

The recent announcement of a projected $1 trillion non-Social Security surplus has created a great deal of excitement in Washington. Before any legislative body can rush off to spend this windfall, however, it is important to understand where it came from and what the nation's needs will be. This month's newsletter explains the surplus, and contains the first of a two part series on Social Security and Medicare funding.

If you would like to speak to me regarding these - or any other issues - please drop by one of my events in the 13th District. I look forward to seeing you there.

Sincerely,

Lynn

Lynn N. Rivers

A Budget Surplus?

Since the Congressional Budget Office (CBO) announced a projected $1 trillion non-Social Security surplus between FY 1999 and FY 2009, some people in Washington have acted as if it were found money. Yet, before they start divvying up the windfall between tax breaks, new programs, and debt reduction, it is important to understand where those dollars will actually come from, and what using the surplus may mean to future government expenditures. Closer examination suggests that current proposals to spend the entire $1 trillion may be unwise.

The CBO is required to base its projections on current law, and extend the implications of these

(***Surplus***, page 2)

Fading Social Security and Medicare Funds

The specter of the trillion dollar surplus gained from cutting discretionary funding has overshadowed the fact that major entitlement programs will become insolvent just beyond the 10 year surplus projection horizon. This will happen because reserves in the trust funds and the income to them will not be enough to pay the benefits owed.

The same forces that are shifting government priorities from discretionary to entitlement spending are pushing entitlement programs into debt. Seniors are living longer, healthier lives, and the programs designed to serve their needs are expanding. We can do more in healthcare for seniors than when Medicare was established 30 years ago. For example, Medicare now covers new technologies like kidney dialysis and hip replacements. The problem is that Medicare and Social Security are, to different degrees, "pay-as-you-go" programs. The younger generation

(***Funds***, page 3)

Washington Office
1724 Longworth H.O.B.
Washington, D.C. 20515
(202) 225-6261

email
Lynn.Rivers@mail.house.gov
internet
http://www.house.gov/rivers/welcome.htm

13th District Office
301 W. Michigan Ave. Ste 400
Ypsilanti, MI 48197
(734) 485-3741

(***Surplus***, from cover)

laws ten years into the horizon. The revenue estimates take into account projected growth of the GDP and rates of inflation. The expenditure estimates are based on existing spending commitments. The CBO clearly states that its projections, "assume that current laws affecting revenues and entitlement programs do not change and that the Congress complies with the statutory caps on discretionary outlays."

The issue lies not within the projections, but the underlying law, and the long-range spending commitments some people in Washington want to make. Policy makers are chipping away at both ends of a surplus that may not be as large as they assume. I call it the "Wimpy" mentality. In the comics, Wimpy implores Popeye, "I would gladly pay you on Tuesday for a hamburger today."

The surplus projections are based on the assumption that Congress will remain within austere spending caps for non-defense discretionary programs established in the 1997 Balanced Budget Act. Non-defense discretionary spending accounts for most government operations, including the National Park Service, disaster relief, aid to education, and the FBI. When inflation, population increases, and the President's current defense spending proposals are taken into account, the caps reduce real spending on non-defense discretionary programs approximately 43% by 2009.

The Center on Budget Policy and Priorities, a budget watchdog group, reports that, "Achieving cuts of this magnitude in domestic discretionary programs would be unprecedented, and would dwarf the cuts Congress was able to pass in these programs when the nation was mired in large deficits." It is unlikely that Congress will hold to these spending caps when it realizes their full magnitude. At the same time, if Congress changes its policies, the tremendous surplus will not materialize.

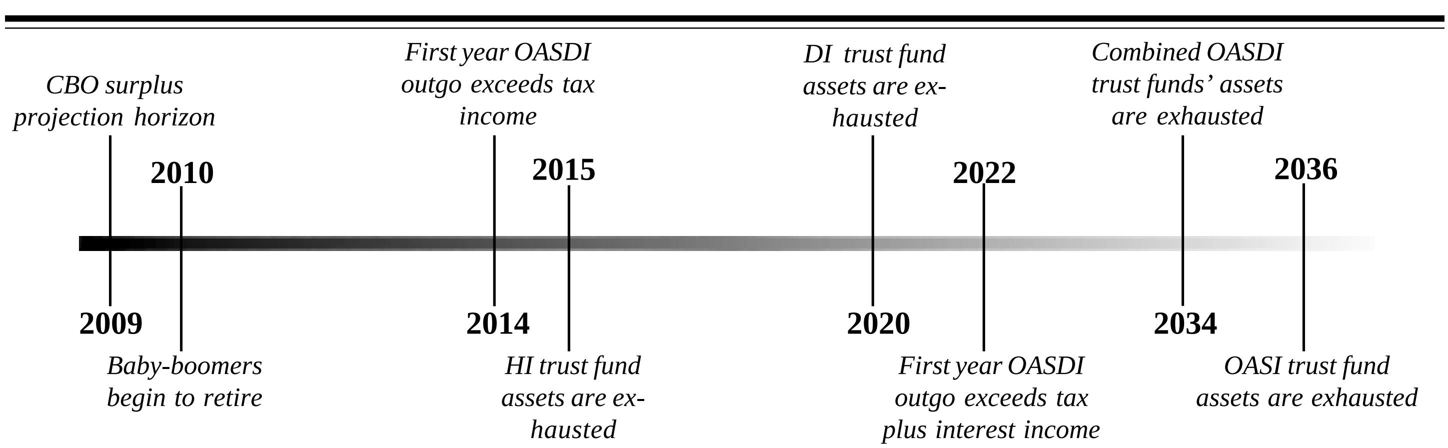
The Center says that, under the "more realistic assumption" discretionary spending will remain at FY 1999 levels and be adjusted for inflation, "a very different picture emerges." Under this revised assumption, the surplus would total only about $260 billion over the next 10 years.

Ignoring these estimates, Congress is racing to spend the projected trillion dollar surplus on tax cuts and new programs. The House passed $792 billion in tax cuts, and a similar bill is nearly through the Senate. At the same time, the President's threat of a veto has spurred on advocates of new programs.

Both of these proposals create problems for the future. The tax proposal diminishes the size of any surplus by using most of it for cuts. In effect, a tax cut ensures that the government will never be able to maintain current levels of domestic spending. Federal Reserve Chairman Alan Greenspan warns that a tax cut will also encourage spending in an already robust economy, creating the inflation we have been lucky to stave off. Greenspan warns against increased government spending for the same reason. If the surplus does not materialize, or is less than expected, current proposals will push the US back into deficit, and leave future Congresses little room to maneuver.

It should also be noted that the CBO assumed that part of the surplus would be used to pay off the national debt. To the extent that Congress directs this money to tax cuts or new spending programs, interest on the debt will continue to rise, and eat into the projected surplus.

The projected surplus presents us with a tremendous opportunity, and I support its responsible expenditure. However, a more realistic view of the projected surplus, and its implications for future domestic spending (not to mention the needs of Social Security and Medicare), should be taken before long-term spending commitments are made.



Source: Social Security and Medicare Boards of Trustees 1999 Annual Reports

(***Funds***, from cover)

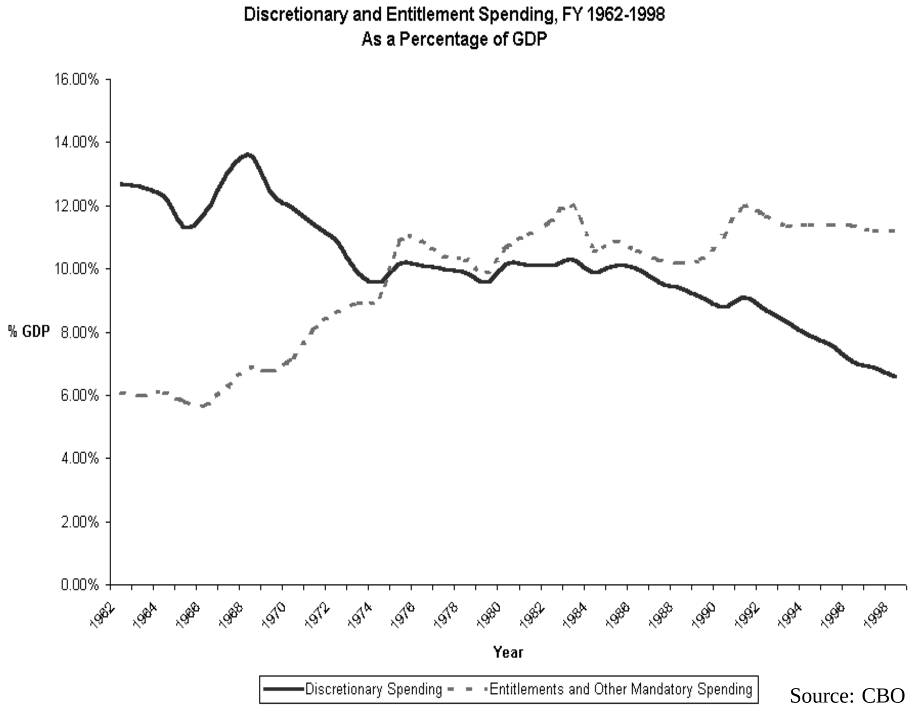
Did you know...

...Teddy Roosevelt whistle-stopped in Plymouth?

President Roosevelt visited Plymouth in 1913 when he was promoting his Progressive (Bull Moose) candidacy for re-election.

Local schools were let out to allow students to listen to Roosevelt speak from the platform of his observation car.

He was running against the Republican nominee William Howard Taft, and the Democratic incumbent, Woodrow Wilson, who won the election.



Source: CBO

supports the retirement of the elder generation. As the baby boomers age, there will be a decreasing ratio of workers to retirees. In 1999, at the height of the baby boomers' earning potential, there are 3.9 workers per Medicare beneficiary. By the time most baby boomers have retired, 2030, there will be an estimated 2.3 workers per beneficiary. This means a precarious financial future for two of the most popular programs ever established.

The Social Security and Medicare trust funds support several programs, most of which have serious long term funding problems. The time line on page 2 marks the years in which Medicare Part A, the Hospital Insurance (HI) Trust Fund, the Old-Age and Survivors Insurance (OASI) Trust Fund and the Disability Insurance (DI) Trust Fund will become insolvent.

The impact of the funding issue extends well beyond the year 2034. Although the trust funds' imminent bankruptcy is getting all of the attention," notes a report published by the National Center for Policy Analysis, "the real story is the commitments we have made to future generations of retirees." Maintaining the current level of Social Security and Medicare spending for our grandchildren will create deficits into the trillions of dollars, but reform is a Catch-22. The transition costs to a new system are potentially far greater than those associated with continuing the current funding methods.

It is not enough to simply postpone the imminent depletion of Social Security and Medicare trust funds. Reforms must be made to ensure their long-range future. Earmarking part of the projected budget surplus for Social Security and Medicare would be a start. Next month's newsletter will discuss the pros and cons of additional options for reform.

Lynn Rivers' Capitol Corner

If you would like to receive this monthly newsletter in the mail, please return the form below to:

Congresswoman Lynn Rivers
301 W. Michigan Ave., Suite 400
Ypsilanti, MI 48197

(Mr./Mrs./Ms.) ______________________________
Name

____
Address

____
City, Zip

Lynn is hosting the following events:

Agency Access Events

August:

Social Security Administration

Wednesday, August 25, 1999
1:00 pm - 3:00 pm
Ypsilanti Township Civic Center
7200 S. Huron River Dr., Ypsilanti

Forums

August:

Immigration and Language Acquisition: A Nation Divided?
Tuesday, August 10, 1999
7:00 pm - 9:00 pm
Wayne County RESA
Annex Bldg.
33500 Van Born Rd., Wayne

International Attempts to Protect the Environment: Can They Work?
Monday, August 23, 1999
7:00 pm - 9:00 pm
Washtenaw Community College
Morris Lawrence Bldg. Room #101
4800 E. Huron River Dr., Ann Arbor

Town Halls

August:

Thursday, August 19, 1999
7:00 pm - 8:30 pm
Wayne Senior Center
35000 Sims, Wayne

Coffee Hours:

August:

Thursday, August 12, 1999
8:30 am - 10:00 am
Cafe Felix
200 S. Main St., Ann Arbor

Friday, August 13, 1999
8:30 am - 10:00 am
Rebecca's on Center
134 N. Center St., Northville

Monday, August 16, 1999
8:30 am - 10:00 am
Belleville Grille
146 High St., Belleville

Tuesday, August 17, 1999
4:30 pm - 6:00 pm
Demeko's Seafood Restaurant
303 S. Inkster Rd., Inkster

Thursday, August 26, 1999
8:30 am - 10:00 am
The Mudd House
317 W. Cross St., Ypsilanti

13th Congressional District
Constituent